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AUTHOR Hale, Toussaint L., Jr.
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ABSTRACT

The System Funding Task Force (SFTF) of the Illinois Community College Board was formed to review the recommendations and framework for modifying the state's funding plan developed by the Board's President's Council. This report presents the SFTF's review of the Council's findings and presents the Task Force's own recommendations for funding. Following a list of Task Force members, the first chapter describes the purpose of the Task Force. The second chapter reviews the Council's report, focusing on the following six funding objectives informing the analysis, while the third chapter reviews 13 principles adopted by the council to guide future funding plan development and 8 additional principles also considered worthy of consideration. Finally, chapter 4 provides a discussion of the Council's funding principles, presenting seven principles recommended by the SFTF, as well as discussions and Task Force recommendations for the following funding objectives: (1) the creation of a separate funding category for operations and maintenance funding to replace the current enrollment-based method; (2) reforming the formula used to allocate state equalization grant, setting 85% of the statewide average tuition rate as a qualifier to receive grants; (3) moving from the current residual-based funding system, in which grants are calculated on needs remaining after local revenue is included; (4) obtaining block grants for special populations, workforce preparation, and advanced technology equipment; and (5) moving toward performance-based funding. A glossary of terms is attached. (HAA)

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Report of the System Funding Task Force

Illinois Community College Board

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September 1996

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REPORT OF THE
SYSTEM FUNDING TASK FORCE
September 1996

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ACKNOWLEDGEMENTS

The members of the System Funding Task Force, with broad representation from all constituencies of the system, have worked diligently and objectively over the past five months to review, analyze, and assess the impact of the funding concepts included in the Presidents Council's 1995 report entitled *Operational Funding of Community Colleges in Illinois: A New Look*. Additionally, the System Funding Task Force utilized the report as a basis for analysis and discussion regarding future funding concepts. The time and effort put forth by the group are greatly appreciated and will help shape the future of funding for the community college system in Illinois.

The work of the System Funding Task Force could not have been accomplished without the additional insight and assistance of the following individuals: Dick Fonte of the Governor's Office, Mark Wilcockson of the Illinois Board of Higher Education, Gary Davis and Mike Monaghan of the Illinois Community College Trustees Association, and Geraldine Evans, Ivan Lach, Mike Srbljan, Darice Yonker, Ed Smith, and Cherie VanMeter of the Illinois Community College Board.

Toussaint L. Hale, Jr.
Chair of the Task Force

MEMBERS OF THE SYSTEM FUNDING TASK FORCE

Toussaint L. Hale, Jr. (Chair)
Vice Chair
Illinois Community College Board

Harry Braun
Presidents Council
Danville Area Community College

Bruce Conners
Illinois Community College Faculty Association
Kaskaskia College

Mark Kern
Presidents Council
Rend Lake College

Dennis Miner
Illinois Community College Trustees Association
Lincoln Land Community College

Edwin Moore
Board Member
Illinois Board of Higher Education

Kevin Northrup
Illinois Community College Chief Financial Officers
Parkland College

Tait Prunckle
Illinois Community College Chief Financial Officers
City Colleges of Chicago

Laura Schilling
Student Advisory Committee
Belleville Area College

Paul Thompson
Presidents Council
William Rainey Harper College

David Whitaker
Illinois Council of Community College Administrators
Prairie State College

Rob Widmer
Illinois Community College Chief Financial Officers
Heartland Community College

Chapter One

Introduction

The Purpose of the Task Force

In December 1995, the Presidents Council completed a study of the operational funding of the community college system in Illinois. Its report, entitled *Operational Funding of Community Colleges in Illinois: A New Look*, was comprehensive in nature and included an evolutionary history of the current funding plan used in Illinois, a review of other states' funding plans, principles to guide future funding plan development, a conceptual framework for modifying the current funding plan used in Illinois, and recommendations of the Presidents Council Task Force to the Illinois Community College Board.

At its meeting on January 19, 1996, the Illinois Community College Board received the report of the Presidents Council and adopted the following motion:

> The Illinois Community College Board hereby authorizes its Executive Director to establish a System Funding Task Force **to review, analyze, and assess the impact of concepts** (*emphasis added*) included in the Presidents Council's report entitled, *Operational Funding of Community Colleges in Illinois: A New Look*, along with other concepts that the task force may wish to consider, such task force to complete its work no later than September 1, 1996, and to consist of the following representation:
>
> Presidents Council
> Illinois Community College Trustees Association
> Illinois Community College Chief Financial Officers
> Illinois Community College Faculty Association
> Illinois Council of Community College Administrators
> Student Advisory Committee
> Illinois Community College Board
> Illinois Board of Higher Education

The System Funding Task Force was formed on March 13, 1996, and met five times between April 2 and August 13, 1996, to complete the task that it had been assigned by the Illinois Community College Board.

The remaining chapters of this report will detail the activities of the system task force and are broken down into the following major areas: a review of the Presidents Council report including objectives and principles adopted by the Council, a review of the funding objectives tested, and recommendations of the task force.

Chapter Two

Review of the Presidents Council Report

Prior to their initial meeting, the System Funding Task Force members received copies of the Presidents Council report in order to acquaint themselves with the issues and the recommendations in the report. The Presidents Council report, which was published in December 1995, was a comprehensive study of the funding formula in Illinois and took almost two years to complete. Dr. James M. Howard has been acknowledged by the Presidents Council for his extensive work in research, data analysis, and preparation of the report.

The report was broken down into six major areas; an explanation and history of the current funding plan in Illinois, a review of literature regarding the evolution of funding plans, a review of other states' funding plans, principles to guide future funding plan development, a conceptual framework for modifying the current funding plan in Illinois, and recommendations of the Presidents Council Task Force.

The System Funding Task Force, at its first meeting on April 2, 1996, reviewed the report and focused on the recommendations of the Presidents Council Task Force. The three recommendations contained in the report were (1) to adopt, in principle, the conceptual framework presented in Chapter VI of its report; (2) prior to implementation to form a task force with broad system representation to review its work and to research, develop, and test the concepts and to involve the Illinois Board of Higher Education (IBHE), presidents, and trustees to present and explain the report to appropriate governmental entities; and (3) to begin implementation with the fiscal year 1998 budget request.

The first recommendation provided the basis for much of the System Funding Task Force's work. Chapter VI of the report provided the conceptual framework for modifying the current funding plan for community colleges in Illinois. It included six funding objectives which were the hypotheses to be tested as follows:

Objective 1: To obtain a fair share of state-appropriated funds for community colleges.

Included in the Presidents Council report were alternatives to using the residual concept and increasing categorical and bloc grant funding.

Objective 2: To refine/improve unit cost calculations.

Discussion points in the Presidents Council report under this objective included reviewing current cost centers to determine their homogeneity and the feasibility of establishing a base year for unit costs then applying a cost index, such as the Higher Education Price Index, to future unit costs.

Objective 3: To redefine productivity by reducing the dependence for funding of the production of credit hours.

In the Presidents Council report, consideration was given to the use of square footages as a basis for funding operations and maintenance costs, and to identify measures of productivity other than credit hours as a way to qualify for state funds.

Objective 4: To encourage and recognize quality, efficiency, and productivity at the college level and to raise the level of accountability.

The realization under this objective in the Presidents Council report is that it will take some time to identify and gain consensus of valid performance and accountability measures. However, the importance of beginning the process to address this issue is stressed in its report.

Objective 5: To continue making provision in state funding for inequitable amounts of local tax revenue per student, but to initiate efforts that recognize the cost of programs and local taxing and tuition assessment efforts.

Under this objective, the Presidents Council report included discussions considering the use of the program mix of districts receiving equalization grants in comparison to statewide program mix averages, and recognition of the amount of local taxing and tuition assessment levels as the bases for receiving equalization funding.

Objective 6: To continue those funding principles that are consistent with Presidents Council and other widely accepted principles.

This objective in the Presidents Council report recognizes that the current funding plan has many concepts that need to be retained. These include the concepts of (a) buffering, (b) utilizing fixed and variable cost calculations, (c) maintaining categorical (restricted) grants that provide funding for local, statewide, individual, and corporate needs, (d) maintaining the equalization concept, (e) utilizing verifiable costs of instruction as a basis for funding, (f) utilizing verifiable or audited data but providing new program startup costs, and (g) not counting competitive grants received by colleges as a source of local revenue when state funding needs are calculated.

The results of the analysis completed to test these objectives are contained in chapter four of this report.

The second recommendation of the Presidents Council report was prior to implementation to form a task force with broad system representation to review its work and to research, develop, and test the concepts and to involve the Illinois Board of Higher Education (IBHE), presidents, and trustees to present and explain the report to appropriate governmental entities. This recommendation was

implemented by the ICCB's formation of the System Funding Task Force. However, to fully implement this recommendation, work will need to continue through the involvement of the IBHE, presidents, and trustees to explain the recommendations of this report and the Presidents Council report to governmental representatives at the state, federal, and local levels.

The third recommendation of beginning the implementation with fiscal year 1998 is included in chapter four of this report.

Chapter Three

Review of Funding Principles

Chapter V of the Presidents Council report provided for the discussion of principles to guide future funding plan development. Funding principles translate philosophy and concepts into practical guidelines and directions.

As noted in the Presidents Council report, it is important that funding principles receive extensive debate and consensus. This had occurred during the development of the Presidents Council report with input from community college presidents, trustees, and staff of the Illinois Community College Board. The principles adopted by the Presidents Council were as follows:

1. Full budgetary authority for the distribution of state funds should be vested in the ICCB.

2. ICCB reserves the right to seek funds from the Legislature based upon its own independent analysis of need.

3. As long as there is an expectation in the formula that certain local tax revenue levels are available, local districts should have statutory authority to generate those levels.

4. An appropriate revenue mix among local taxes, student tuition, and state grants should be developed and maintained with a goal being no less that one-third of total revenues being derived from state grants.

5. The residual funding concept should be disbanded and a model with minimal (foundation level) state support established in its place.

6. An appropriate revenue mix between restricted and unrestricted state grants should be determined and maintained with a goal being that no more than 10 percent of state grants should be restricted.

7. Equalizing local tax revenue availability through state grants should continue as a principle, provided that participating institutions meet a minimum tuition/fee threshold.

8. Local districts should be able to generate funds through federal and private grants without being penalized in the formula.

9. While the primary focus of the formula should be cost-based and allow for cost variations among courses and programs, the cost centers and variations should be reexamined periodically to determine their validity.

10. There should be an appropriate distribution of state and other grants to community colleges other than those appropriated to the Illinois Community College Board.

11. The extent to which state grants depend on enrollments should be diminished; other methods of generating state revenues should be incorporated into the funding mechanism.

12. Because the formula includes a two-year lag in terms of funding enrollments, further attention needs to be given to new program initiation and its associated costs.

13. Colleges must retain the right to set their own tuition levels.

The Presidents Council report also included the following principles which were considered to be worthy of consideration as funding plans are developed. While not formally adopted by the Presidents Council, these principles enjoy a broad consensus among community college funding experts. They are as follows:

1. Funding should be tied to, or consistent with, system goals and priorities.

2. Funding plans should encourage and reward quality, efficiency, and productivity.

3. Funding plans should promote accountability.

4. Funding plans should encourage innovation.

5. The impact of substantial enrollment changes should be minimized through "decoupling"; e.g., by not basing all funding on student enrollments.

6. The impact of substantial enrollment changes should be minimized through "buffering"; e.g., by altering the enrollment measure through use of enrollment averaging.

7. Cost calculations should be more reflective of need rather than past experience.

8. Fixed and variable costs should be a factor in determining state funding.

The System Funding Task Force reviewed the principles enumerated in the Presidents Council report. These principles were then tied to the results of the objectives tested in the conceptual framework contained in the Presidents Council report as a method of providing refinements to the funding principles. These funding principle refinements are recommended in chapter four of this report.

Chapter Four

Discussion and Recommendations of the System Funding Task Force

The one recurring theme throughout the deliberations of the System Funding Task Force was the need for continuous review and change to the operational funding formula of the community college system in Illinois. As society's needs constantly change, so must the community college system change. The system's funding formula must remain aligned with its environment and must be able to recognize changing priorities and have the flexibility and adaptability to move in the direction needed.

The recommendations of the System Funding Task Force are based upon the review of the funding principles and objectives previously discussed. Some of the recommendations can be implemented with the fiscal year 1998 budget request. Others need additional time for study and analysis which will require implementation dates of fiscal year 1999 and beyond.

The recommendations of the System Funding Task Force are as follows:

- **Funding Principles**

  Discussion: As noted in the previous chapter, the funding principles enumerated in the Presidents Council report were reviewed by the System Funding Task Force. It was suggested that the principles recommended for adoption should be very broad in focus to enable their use to continue for a substantial period of time. As a result, the funding principles were refined to include the philosophies of the broader consensus based principles contained in the Presidents Council report.

  Recommendation: It is recommended that the following seven funding principles be adopted:

  1. Funding should be tied to, or consistent with, system goals and priorities.

  2. Funding should not solely be based on student enrollments; decoupling from credit hour funding should be used, where appropriate, to properly align the funding formula with community college activities.

  3. Equalizing local tax revenue availability through state grants should continue.

  4. Funding from state sources should not be based solely upon the residual concept.

5. Funding should be cost based, with periodic reviews to ensure that the costs accumulated provide the proper level of accountability to accurately reflect the activities of the system.

6. Funding should encourage and reward quality, efficiency, productivity, and innovation through performance-based components.

7. The impact of substantial changes in funding should be minimized through the use of buffering.

♦ **Funding Objectives**

The System Funding Task Force specifically identified and tested the following funding issues based upon the objectives in the Presidents Council report.

1. Operations and Maintenance Funding

Discussion: Currently, the funding of operations and maintenance expenses is included in credit hour grant funding and is enrollment-based. Several other states have broken out these costs and have begun funding these expenditures in a separate funding category based on factors other than enrollment. The rationale for considering this concept is that each college has a certain level of operating and maintenance expenses that must be covered, regardless of the number of students or credit hours generated. Also, with the increasing use of college facilities for noncredit hour generating activities, there is less justification for continuing to fund this category of costs through the present allocation system.

The System Funding Task Force reviewed several scenarios for distributing operations and maintenance funds based upon state-funded square footage versus total funded square footage in lieu of credit hour grants. The use of leased space in the calculations was considered, and methodologies of how to account for age, type, and utilization of facilities were discussed. While it was determined that justification existed for funding operations and maintenance costs in a separate funding category, sufficient data are not available to provide an equitable distribution method at this time. With additional research, this category could be established for future funding.

Recommendation: The task force recommends that the Illinois Community College Board create a separate funding category for Operations and Maintenance funding. In order to implement this recommendation, additional data collection and analysis are needed. The task force also recommends that a Capital Task Force be established to:

(a) Revise the current capital budgeting process to capture more accurate data concerning capital needs and uses which will allow for the identification of other funding measures.
(b) Revamp the facilities file (consider age, type, and utilization of facilities).
(c) Consider including leased space for which colleges are responsible in Operations & Maintenance calculations.
(d) Review other states' literature.
(e) Include analysis of state-funded versus total funded space.
(f) Target the fiscal year 1999 budget request for implementation.

2. Equalization Reform

Discussion: Equalization, in concept, makes provisions for allowing all students equal educational opportunities regardless of where they reside. This concept is widely accepted in Illinois. The current equalization formula is designed to compensate districts that have a below average tax base per in-district student. The formula assumes a statewide average tax rate, but does not prescribe a qualifying tax rate or a qualifying tuition rate to ensure that each district is making a strong effort in obtaining adequate revenues for the college from local sources.

The System Funding Task Force spent much time and effort in discussions concerning how to more equitably distribute equalization grants. The discussions included policies regarding tuition that have been adopted by the Illinois Community College Board and the Illinois Board of Higher Education. Agreement was reached on three issues regarding future equalization funding. First, the concept of using 85 percent of the statewide average tuition rate as a qualifier to receive equalization was accepted. The buffering principle was used through the establishment of a transition period, whereby districts below the 85 percent level would have four years to reach that level.

Second, a program mix basis for equalization funding based upon program mix and unit cost was also accepted. This basis aligns the funding formula with the principle of cost-based calculations. As with the tuition qualifier, it was suggested that the buffering principle be used to minimize the impact that a change to a program mix basis for funding equalization might create. In concept, colleges would receive equalization funding based upon the larger of the program mix calculation or the current formula calculation for a certain transition period. Over time, it is anticipated that all districts will move to a program mix calculation for equalization funding in the future.

Finally, each year there are a few districts who qualify for equalization, but do not receive equalization funding. This is due to limited state funding which requires a

proration of the annual average threshold amount. Because of this proration, a district that is close to the statewide average could drop out of equalization funding. The System Funding Task Force agreed that a minimum grant should be included in the equalization funding formula to compensate those districts who qualify for equalization prior to the reduction of the threshold. This procedure will also eliminate confusion regarding districts qualifying for the equity tax.

Recommendation: The following recommendations are made concerning equalization.

1. The use of 85 percent of the statewide average tuition rate as a qualifier to receive equalization funding subject to the following rules:

   (a) A one-year transition (fiscal year 1998) with a subsequent three-year phase-in period beginning with fiscal year 1999 exist to allow the districts below the 85 percent threshold time to develop a plan to reach the required tuition level. This four-year plan for tuition rates is consistent with the Illinois Board of Higher Education's goal concerning planned tuition increases.

   (b) A percentage reduction in equalization funding for those districts not meeting the 85 percent qualifier beginning in fiscal year 1999. The reductions will consist of a 75 percent funding level for those districts between 80-84 percent of the statewide average tuition rate, a 50 percent funding level for those districts between 75-79 percent of the statewide average tuition rate, and 0 percent funding for districts under 75 percent of the statewide average tuition rate (see Table A for an example). Any residual equalization funds after reductions for those districts below the 85 percent statewide average tuition rate will be redistributed to the rest of the equalization districts.

   (c) A dollar amount limitation per year in the tuition increase expected of districts below the average to avoid funding reductions. The amount of the limit will be calculated as the prior year's known increase plus $1. For example, the planned fiscal year 1999 minimum tuition rate will be calculated based upon the fiscal year 1997 average tuition rate increase over fiscal year 1996 plus $1. The base year statewide average tuition rate will be fiscal year 1996. The tuition rates to be used each year in determining the statewide average will be those rates effective for each district on July 1 of each year.

   (d) By August 1 of each year, the Illinois Community College Board will notify those districts whose tuition rates will not meet the 85 percent qualification in the upcoming budget year. This will enable those

Table A

EXAMPLE OF 85 PERCENT TUITION QUALIFICATION

BUDGET YEAR	STATEWIDE AVERAGE TUITION RATE*	THRESHOLD - 85% OF STATEWIDE AVERAGE	DISTRICT X TUITION RATE	PERCENT OF STATEWIDE AVERAGE	INCREASE IN STATEWIDE TUITION	DISTRICT X MINIMUM INCREASE FOR 100% FUNDING**	INCREASE MUST BE EFFECTIVE BY:
FY 1998	$38.53	$32.75	$29.50	76.6%		***	
FY 1999	$39.80	$33.83	$31.77	79.8%	$1.27	$2.27	August 1, 1997
FY 2000	$41.37	$35.16	$34.34	83.0%	$1.57	$2.57	August 1, 1998
FY 2001	$42.62	$36.23	$36.59	85.9%	$1.25	$2.25	August 1, 1999
FY 2002	$44.17	$37.54	$37.54	85.0%	$1.55	$0.95	August 1, 2000

* Based on two year's past statewide average, i.e, FY 1998 budget year utilizes FY 1996 average tuition rate as base year.

** Any year a district does not meet the 85% threshold, tuition will have to be increased by statewide average increase plus $1.00 to avoid percentage reductions in equalization funding. For this example, after FY 2001, $.47 increase needed to only meet the 85% threshold.

*** Hold harmless for FY 1998

districts under the 85 percent level to make an informed decision concerning their tuition policies that are to be effective for the following year.

2. The use of a program mix basis for equalization funding should be reviewed by the Illinois Community College Board's Finance Advisory Committee with a recommended plan of action prepared by no later than August 1, 1997. The program mix basis would align the funding formula with the principle of cost-based calculations. The use of the buffering principle is also recommended as a means of moving toward a program mix basis without creating undue hardship on districts. The recommended plan should be reviewed by the Presidents Council Finance Committee, the trustees, and the Illinois Community College Board at its September 1997 meeting.

3. The establishment of a minimum grant of $50,000 per district for those districts who qualify for equalization based upon 100 percent of the threshold beginning in fiscal year 1998. This minimum grant will eliminate confusion regarding qualification for the equity tax.

3. Movement From the Residual Concept

Discussion: The current funding formula is residual in nature. This means that the calculation of the state credit hour grants to community colleges is based upon the amount that is remaining after total system needs are reduced by other forms of revenue (primarily local taxes and tuition). It has been necessary in the past to introduce program improvement funding in addition to the amount needed to fund credit hour grants in order to support those programs identified as system priorities.

The Presidents Council report discussed two alternatives for consideration. The first was to seek a minimum or foundation funding level, such as one-third of net instructional costs. The other alternative was to seek to increase Illinois Community College Board categorical or bloc grant funding in areas of system priority, such as workforce preparation and adult education.

The System Funding Task Force spent a considerable amount of time reviewing the alternatives prescribed in the Presidents Council report, as well as considering other strategies as alternatives to the residual concept. Based upon an analysis of the comparison of total state funds (including non-ICCB grants) to net instructional costs for the six credit hour funding categories, it was determined that some categories were adequately funded while others fell short of the suggested minimum foundation level of one third. It was also determined that the probability of obtaining a minimum foundation funding level for each of the funding categories was not very

high at this time. However, it was suggested that this analysis be used to identify areas of priority for program improvement funding.

As a result of these discussions, clarification of a "modified residual concept" for credit hour grant funding began to emerge. This methodology improves the technical quality of the residual formula by adding program improvement funding categories that are directly related to system priorities. Greater flexibility is maintained though the ability to realign program improvements with system priorities. Also, it was the consensus opinion of the task force that increases in bloc grant funding should continue to support noncredit hour based program needs.

Recommendation: The following recommendations are made regarding movement from the residual concept.

1. The task force recommends that the Illinois Community College Board continue to seek increased funding for system priorities.

2. It is recommended that the Illinois Community College Board endorse the use of the "modified residual concept" for credit hour grants through the continued use of program improvement funding categories that are aligned with system priorities. Also, continue to seek additional funding for bloc grant initiatives as was done in fiscal year 1997.

4. **Bloc Grants**

Discussion: The work of the System Funding Task Force focused on the following bloc grants: special populations, workforce preparation, and advanced technology. Each of these grants is considered to be a high priority for the future. However, concerns were raised by task force members as to whether the current distribution methods for these grants were properly aligned with the system's activities related to these grants and whether consideration should be given toward moving away from credit hour and enrollment-based distribution methods.

- **Special Populations Grant**

  Discussion: The special populations grant is targeted to serve the many students who enroll at community colleges with academic deficiencies and physical challenges that require special assistance by the college. The current distribution methodology is based on a grant of $20,000 per college with the remainder distributed on remedial and adult basic/adult secondary education hours. It was suggested that more accurate measurements for targeting special populations exist. The Task Force agreed that a better distribution method would be through a base grant with future years' increases in the

grant being distributed based upon special population measurements, such as zero Expected Family Contribution (EFC) students and physically challenged students per district. Also, current special populations data collected would be reviewed for appropriateness as distribution measurements.

Recommendation: It is recommended that the fiscal year 1997 funding level be used in future years as a base grant amount. For fiscal year 1998, any funding above the fiscal year 1997 level will be distributed based upon the measurements targeted at special populations, such as the number of zero EFC students per district or other special populations student data currently available. Additional measures should be implemented (i.e., the number of physically challenged students per district) as data to support these measures are found to be verified and reliable. It is recommended that the Illinois Community College Board's Finance Advisory Committee be responsible for developing these additional measures for the fiscal year 1999 budget.

- **Workforce Preparation Business/Industry Grant**

Discussion: The workforce preparation business/industry grant was originally based upon a flat grant of $30,000 per district with the remaining allocation based upon funded occupational hours. The flat grant amount has been increased to $35,000 per district. The original idea of the base grant amount was to partially fund the salaries and benefit costs of a business/industry center staff on each campus. While the allocation of the grant based upon occupational hours appears reasonable, the flat grant amount needs further study and revision. It appears that the $35,000 base amount no longer accurately reflects the cost of a business/industry center staff today. Based on the most recent salary survey data, this figure is approximately $75,000.

Recommendation: It is recommended that the fiscal year 1998 base grant amount be calculated at $75,000 which represents the current cost of staffing a college business/industry center. In future years, this cost should be inflated by the Higher Education Price Index.

- **Workforce Preparation Education-To-Careers Grant**

Discussion: The workforce preparation education-to-careers grant is distributed based upon a base grant of $100,000 per district with the balance distributed based upon district population. The base grant amount is currently needed to fund infrastructure at the colleges for establishing education-to-careers partnerships. The district population distribution is not reflective of the activities being performed at the colleges. Better measurements are labor force, unemployment, and welfare caseload numbers.

These three measures will address the purpose of the grant in terms of upgrading the skills of the current workforce, employing the unemployed, and reducing the welfare caseload. Also, the need to maintain flexibility in reimbursing workforce preparation-related expenses by methods other than credit hours was considered a priority.

Recommendation: It is recommended that the base grant of $100,000 remain in place for fiscal years 1998 and 1999, but a redistribution of the remaining grant funds should occur by utilizing labor force, unemployment, and welfare caseload data.

Future measures might include the number of people upgraded and other customized training not reimbursed, such as dollar volume under contract, number of nonreimbursed enrollees, and in-state versus out-of-state training. After fiscal year 1999, the base grant amount should also be reviewed. It is recommended that the Illinois Community College Board's Finance Advisory Committee be responsible for recommending future measures for the fiscal year 1999 budget. It is also recommended that flexibility in reimbursing workforce preparation- related expenses by methods other than credit hours be considered a priority in the future.

- **Workforce Preparation Student Support Services Grant**

Discussion: The workforce preparation student support services grant is to be used for expansion and enhancement of student support services related to workforce preparation. These include services such as career assessment, career interest inventories, and providing assistance with tutoring, development of college study skills, day care, and job placement. The current distribution methodology, based upon student headcount, was discussed and was found to be adequate.

Recommendation: None.

- **Advanced Technology Equipment Grant**

Discussion: The advanced technology equipment grant is used to purchase state-of-the-art instructional equipment. The distribution methodology for this grant, which is based upon occupational credit hours, was found to be adequate.

Recommendation: None.

- **Advanced Technology Support Grant**

  Discussion: The advanced technology support grant recognizes the community college system's critical need for technological advances in all areas of their operations, as well as the need for more efficient operations of institutions. These grant funds help defray the costs related to infrastructure, transmission, and maintenance costs associated with technology support. The current distribution methodology is based upon a grant of $100,000 per district with the remainder distributed based on student headcount. Questions arose as to the appropriateness of the base grant amount and student headcount as the basis for distributing the remaining funds. It was determined that additional research is needed in this area to ensure that the distribution methodology accurately reflects the costs associated with this grant.

  Recommendation: It is recommended that, for fiscal year 1998, the Illinois Community College Board's Finance Advisory Committee review the current data used to identify the cost of delivery to the number of students served through technology-based learning to better align the distribution of this grant with its related costs and to capture additional credit hours generated through technology-based learning.

5. Movement Toward Performance-Based Funding

Discussion: A number of community college systems in other states have set aside small amounts (usually 1-5 percent) of their appropriations to encourage and recognize quality, efficiency, and productivity improvements. While this component will take some time to develop, the newly enacted legislation regarding adult education requires a performance-based component in its funding formula. It is possible that a parallel structure could be used for the adult education funding component of the community college system formula. Also, the Illinois Community College Board received operating funds in fiscal year 1997 for the development of performance indicators.

Recommendation: It is recommended that the Illinois Community College Board implement a performance-based funding component no later than fiscal year 1999. Consideration should be given to funding adult education using a parallel structure to the adult education agreement between the Illinois Community College Board and the Illinois State Board of Education.

6. Cost Analyses

Discussion: In order to effect some of the changes in the funding formula, additional cost analyses will be required. The System Funding Task Force discussed the following areas where additional costs analyses are needed.

1. Review the homogeneity of the six credit hour funding categories currently in use. Analyses that were prepared indicated that wide cost variations exist within some of the funding categories.

2. Consideration should be given to funding high-cost/high-demand programs differently, either through their own funding category or through the use of differential funding within categories.

3. High-cost/low-demand programs were also an area of discussion. These programs should be reviewed to determine if funds can be identified that can be better utilized by the system in other program areas. The utilization of the PQP initiatives identified by the system is a resource that can be used to help address the issue of high-cost/low-demand programs.

4. The need for a cost study of adult education was also discussed. Concerns were raised regarding whether the current cost accumulation system accurately reflects the system's adult education activities.

5. Consideration of beginning to fund the startup costs for new programs through a separate funding category. Since system funding is based upon two-year-old audited data, no provisions currently exist for funding the startup costs of new programs.

Recommendation: It is recommended that the following cost analyses be prepared by Illinois Community College Board staff for inclusion in the system operating budget request no later than fiscal year 2000.

1. Review the homogeneity of the current cost categories for adequacy.
2. Consider funding high-cost/high-demand programs differently, either through their own funding category or through the use of differential funding within categories.
3. Review high-cost/low-demand programs as a possible area for funding redistribution.
4. Prepare a cost study of adult education to determine whether the current cost accumulation system accurately reflects the system's activities.
5. Consider funding startup costs of new programs through a separate funding category.

GLOSSARY

Adult education. Instruction provided to students in the areas of adult basic education (below 9th grade skill level), adult secondary education (9-12 grade skill level), GED (high school equivalency exam), and ESL (English as a Second Language).

Average annual threshold (equalization). The statewide weighted average amount of local property and corporate personal property tax revenue received per full-time equivalent student by community colleges in Illinois. Districts with local revenue per FTE below the statewide average are eligible for equalization grant funding.

Base (flat) grant. A flat dollar amount distributed to each district (or college) regardless of enrollment or other factors.

Bloc grant funding. Funds targeted for statewide initiatives and disbursed to colleges on bases other than credit hour or enrollment factors.

Buffering. A method used to lessen the impact of fluctuations due to changes in funding mechanisms.

Categorical (restricted) funding. Grants distributed to colleges for a specified purpose with restrictions placed on the types of allowable expenditures.

Competitive grants. Grants for special projects for which a college would have to compete for award of available funds.

Cost centers. Net instructional unit costs per funding category. See **net instructional costs**.

Credit hour grant funding. Unrestricted funds disbursed to colleges on the basis of credit hours generated in six reimbursable instructional (funding) categories.

Credit hour. Unit of enrollment measurement used for formula-based funding. One credit hour equals one student enrolled for one credit hour of instruction

Decoupling. A method to base funding on measures other than credit hour production or other enrollment data.

Differential funding. Funding at a rate above or below the average rate due to special circumstances.

Equalization grants. Unrestricted grants to colleges with local tax revenue per FTE student below the statewide weighted average threshold. These grants are an attempt to reduce the disparity between districts in local property tax funds available per student.

Equity tax. Additional tax levy authority granted by Section 3-14.3 of the Public Community College Act to eligible equalization districts with educational and operations and maintenance tax levy rates less than the certified statewide average rate.

Fixed costs. Costs that are not necessarily related to the size of the institution or shifts in enrollment.

Foundation level (minimum level). A level of funding per credit hour determined to be a minimum obligation on the part of the State. Usually defined as one-third of net instructional unit costs.

Funded hours. Reimbursable semester credit hours calculated for funding purposes by utilizing the higher of (a) actual credit hours generated in base fiscal year or (b) average of past three fiscal year's credit hours.

Funding category. Program categories of instruction classified by discipline area into reimbursable funding categories. Current funding categories include: (1) baccalaureate/transfer, (2) business and service occupational and vocational, (3) technical occupational and vocational, (4) health occupational and vocational, (5) remedial education, and (6) adult basic/adult secondary/English as a Second Language.

Full-time equivalent student (FTE). Defined as a student producing 30 credit hours annually.

IBHE. Illinois Board of Higher Education

ICCB. Illinois Community College Board

Local tax revenue. The amount of revenue received through property taxes and corporate personal property tax replacement revenues.

Modified residual concept. Current residual methodology with program improvement areas identified for additional funding above formula-driven calculations.

Net instructional costs. Costs for instruction in courses approved for credit. Costs include expenditures for teaching salaries, direct departmental and equipment costs, academic administration and planning costs, and an allocated proportion of support costs (learning resources, student services, administrative data processing, general administration, operation and maintenance of plant, institutional support, and building rental).

Nonreimbursed enrollees. Students served outside of the college credit program which is eligible for credit hour grant reimbursement.

Occupational hours. Credit hours generated in funding categories (2) business and service occupational and vocational, (3) technical occupational and vocational, and (4) health occupational and vocational.

Operations and maintenance costs. Activities necessary to maintain physical facilities, including grounds, buildings, and equipment. Includes campus security, plant utilities, and equipment, materials and supplies necessary to support this function.

Performance-based funding. Funding based upon defined performance indicators or outcome measures.

Priority, Quality, and Productivity (PQP). A statewide initiative implemented by the Illinois Board of Higher Education in 1991 to refine priorities in order to strengthen the quality and improve the productivity of Illinois higher education. The initiative requires intensive examination of multiple aspects of higher education and involves parallel review and decision making at the college, governing board, and state levels.

Program improvement funding. Identified instructional categories that require additional state funds targeted for special purposes or needs.

Program mix. Proportion of credit hours generated in each instructional funding category.

Residual concept. Method used to calculate state funding to the community colleges by determining the total amount of estimated revenue needs remaining after all other sources of revenue are subtracted. This calculation represents the credit hour grant funding request.

Square footage. Gross square footage of permanent or temporary, state-appropriated or locally funded, space owned and operated by the community college.

Technology-based learning. Instruction provided via interactive telecommunications technology.

Unit cost. Net instructional costs per semester credit hour. See definition of **net instructional costs**.

Variable costs. A cost that is dependent upon the level of service provided.

Zero EFC. Financial aid students who have no expected family contribution to their educational costs.